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EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON 25, D. C.

July 3, 1963

On file OMB release instructions apply.

MEMORANDUM FOR: Mr. John A. McCone
Director of Central Intelligence

The Bureau of the Budget is concluding a review of the department and agency 1965 Budget Preview submissions encompassing the projection period fiscal year 1964 through 1968. In this year's review, staff has again identified and summarized the major component activities of the Intelligence Community, and has highlighted certain problems and issues which I would like to discuss with you.

Attached is an agenda which I propose for our discussion of the Intelligence Community on July 9, 1963, together with a Bureau summary of the programs of the Community. Following the general discussion of the Community, I also would like to reserve sufficient time to discuss significant aspects of the projected CIA programs.

I am hopeful that, as expressed in the Bureau's letter of June 23, 1962, which transmitted last year's preview of the Intelligence Community programs to you, we will be able to be of mutual assistance in consideration of both Community-wide and CIA problems.

Elmer B. Staats

Elmer B. Staats
Acting Director

Attachment

(Executive Office of the President B.O.B.)

DIA review completed

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PROPOSED AGENDA FOR DISCUSSION
WITH THE
DIRECTOR OF CENTRAL INTELLIGENCE

JULY 9, 1962

1965 BUDGET PREVIEW
THE INTELLIGENCE COMMUNITY

1. Discussion of the Bureau's summary of agency estimates furnished for the 1965 Budget Preview.
 - a. Trends, from prior years.
 - b. Make-up of current program.
 - c. Implications for 1965 and subsequent years, in contrast to available projections.
2. The relationship between magnitude of current effort and current product.
3. Discussion of fundamental problems concerning organization, management and program in the Intelligence Community:
 - a. clarification of the responsibilities of the DCI and the means by which he shall exercise them;
 - b. identification of that part of DOD intelligence activities to be centrally managed, and appropriate provision at the Office of Secretary of Defense level for supervision of program planning and execution;
 - c. clarification of the scope and depth of national intelligence efforts by fields of activity and by country or region and
 - d. development of the basis for choice among organizations and the means to be employed in the collection and production of intelligence.

1965 BUDGET PREVIEW

THE INTELLIGENCE COMMUNITY

This presents a program projection for activities conducted by the Department of Defense, the Central Intelligence Agency, and the Department of State, which, together with relatively minor efforts conducted in the Atomic Energy Commission and the Federal Bureau of Investigation, constitute the Intelligence Community. It is a program area as distinct from an organizational entity with its own appropriations and self-contained management tools and control. Hence, Bureau staff in treating with the preview has a two-fold function: (1) identifying and setting-forth the intelligence programs and activities carried in agency preview submissions to the Bureau, and (2) evaluating and commenting on programs and activities so identified. It is to be noted that the means for identifying intelligence activities varies between agency programs, and within the Department of Defense varies greatly from one component area to another. However, it is believed that resulting from the approximately one-year of focused Bureau staff effort to the Intelligence Community, a fairly realistic and conservative identification of the Community effort is now available.

The cost of the Intelligence Community operations is now on the order of 25X of the administrative budget for the Federal Government. In summary, all indicators--stated requirements from all sources and agency plans for intelligence programs and activities- through the 25X projection period. The background factors which are frequently referred to in justification of increases in the Community can be summarized in the following:

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- (1) Detailed U.S. national interests in foreign affairs are increasing constantly in both scope and depth; i.e., additional countries and regions, and all fields of activity, such as political, economic, social, technological, military, etc.
- (2) The effects of "measure" and "countermeasure" result in a continuing escalation in the sophistication and cost of techniques employed in the conduct of most intelligence operations.
- (3) Intelligence activities are characterized as "at war" now.

In contrast to these factors, all available projections for the Intelligence Community effort indicate a leveling-out, or decrease, in estimated totals for future years. This is largely attributable to the following:

- (1) reflection of restraints normally associated with support-type functions, such as intelligence, in long-range agency planning projections,
- (2) the omission of funding estimates for unidentifiable technical and system development efforts that inevitably emerge, and
- (3) more specifically, the presently planned completion of certain aircraft development and procurement projects.

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Staff efforts in the identification, analysis, and evaluation of the Community's activities during the year have identified certain fundamental problems which require solution before "substantial" improvements can be undertaken in the Community's activities. These problems are discussed in a statement following a table summarizing agency estimates furnished to the Bureau.

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1965 BUDGET PREVIEW

The following numbered paragraphs outline fundamental problem areas in the intelligence community. Lack of solutions in these areas seriously limits the productivity of the community, otherwise attainable with the application of given levels of resources. Similarly, lack of solutions in these areas seriously restricts the range of program and management choices that should be taken to establish optimum program efforts from a community-wide and national point of view.

1. THE MANAGEMENT ROLE OF THE DIRECTOR OF CENTRAL INTELLIGENCE

Problem: The DCI is charged by a memorandum of January 16, 1962 from the President with certain coordination responsibilities and the accomplishment of certain actions, but existing authorities and management tools in the Executive Branch are organized in a different and opposing way. It is understood that the President expected such changes in the established order of things accomplished as to significantly increase both the productivity and efficiency of the community.

Comment: Among other things, the President's memorandum of January 16, 1962 to the DCI sets forth the following:

"In carrying out your newly assigned duties as Director of Central Intelligence, it is my wish that you serve as the Government's principal foreign intelligence officer, and as such that you undertake, as an integral part of your responsibility, the coordination and effective guidance of the total United States foreign intelligence effort.... As directed by the President and the National Security Council, you will establish with the advice and assistance of the United States Intelligence Board the necessary policies and procedures to assure adequate coordination of foreign intelligence activities at all levels.... With the heads of the Departments and Agencies concerned you will maintain a continuing review of the programs and activities of all U. S. agencies engaged in foreign intelligence activities with a view to assuring efficiency and effectiveness and to avoiding undesirable duplication.... It is my wish that you keep me advised from time to time as to your progress in the implementation of this directive and as to any recommendations you may have which would facilitate the accomplishments of those objectives."

In opposition to this charge are the following realities:

a. Most of the working assets, comprising the bulk of the intelligence community effort, lie under the management control of "senior" heads of Departments. In dollar terms, the Department of Defense has management and financial responsibility for about \$ [redacted] of the \$ [redacted] 25X

[redacted] 1963 that finances the FY 1963 intelligence community effort. The [redacted] 25X

Secretary of Defense necessarily must view the intelligence component as just one of several claimants for resources within the Department's operations, and he must exercise control over it accordingly.

b. The membership of the United States Intelligence Board is dominated numerically by the military, and the present membership comprised of designated representation of the Army, Navy, and Air Force, perpetuates the separate identification of Army, Navy, and Air Force interests.

Thus, the membership of USIB is in conflict with its institutional role

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as advisor to the Chairman, the DCI, on program and management matters. (The same comment is not true with respect to USIB's production of intelligence products--national estimates.)

c. Intelligence activities are correctly classified and viewed as non-policy formulating and service-type functions. As such, they are "customer-oriented." Accordingly, managers of such activities are not in a decisive capacity to exercise judgment as to the validity and relative priority of requirements placed on them. The "customers" on the other hand are largely in the relatively easy situation of being able to state and push demands for services without direct responsibility for furnishing resources required in their satisfaction. Thus, with all other factors equalized, the DCI's role is ultimately restricted to an advisory capacity on matters concerning efficiency and economy in meeting recognized requirements. (Further implications of this item-c are discussed under paragraph 3, below.)

2. THE ORGANIZATION OF THE INTELLIGENCE EFFORT IN THE DEPARTMENT OF DEFENSE

Problem: Intelligence activities conducted in the DOD fall into three

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divisions: (a) the [redacted] per annum development and operation of systems for overhead reconnaissance--special satellites and aircraft--under the National Reconnaissance Office, (b) the [redacted] per year conduct of the signals intercept and processing effort--SIGINT--under the National Security Agency, and the Army, Navy, and Air Force cryptologic agencies, and (c) all other intelligence activities, currently priced at about [redacted] per 25X1

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year--the traditional intelligence activities--under the Defense Intelligence Agency. Program determination, financing, and other overall management matters for these three divisions only come together at the Office of the Secretary, and all through very different relationships and means.

Comment: The intelligence activities in each of these divisions, compartmented for security reasons, significantly impact---or should--on the activities in each of the other divisions in several ways, e.g., scope and depth of collection efforts, compatibility in exploitation techniques, and coordination in production efforts. The exercise of selective choice among activities in each of the divisions in favor of means in another, and the close coordination of programming for and the conduct of activities in all three divisions is difficult without continuous review and guidance of all three from the top. The recent initiation of the DIA is an important step in the right direction, but it should be recognized that the advent of DIA only begins a solution to part of the problem.

Whereas the other two divisions of the DOD intelligence effort have direct access to the Secretary, it should be noted that DIA is an organization under the Joint Chiefs of Staff. It is accordingly in an anomalous position with respect to reviewing and supervising Service programs and activities supporting intelligence operations.

Because of normal military command relationships, there is question whether a military officer serving as the Director of the National Security Agency can most effectively provide operational and technical guidance to the Service cryptologic agencies in accordance with present DOD directives concerning the responsibilities of the NSA.

As a major mechanical obstacle, the lack of an agreed-upon concept of what constitutes intelligence activities hampers present DOD intelligence programming and management. At one end of the scale of activities, intelligence becomes integral to command-control functions, and at the other end becomes merged with and non-separable from tactical units. A significant case in point is the question of DIA's capability and responsibility for the review and supervision of reconnaissance aircraft programs--currently priced at about 25X1 [redacted] a year.

3. WHAT INDICATORS ARE NEEDED TO ESTABLISH NATIONAL POLICY AND TO GUIDE OPERATIONS IN NATIONAL AFFAIRS?

Problem: Intelligence operations currently conducted by the Federal Government have been likened to a vacuum cleaner in which we try to sweep everything up--large and small alike--in the hope that somewhere in the take we'll have all that is available on any and every possible question or issue. There has been a traditional inclination to cite instances where comparatively insignificant bits of information tended to point first to a critical event, in support of the thesis that every resource, if possible, should be applied to every potential situation. Based generally on this thesis, there is a limitless requirement to satisfy our world-wide interests.

Comment: Without study information in detail to measure and document the existing situation, it would appear that the current intelligence effort is over-committed to the collection and processing of minutia. Much of what the community produces and is capable of responding to in the way of demand for services may be interesting but cannot have any appreciable

effect in the establishment of national policies domestically, or in our foreign affairs, and at best can have only marginal value in guiding day-to-day reactions to the myriad operations conducted by the Government.

Techniques for acquiring and evaluating the essence of vital situations in most fields of interest--population, economy, trade balances, currency status, social development status and objectives, and technologic status--for significant countries and regions of the world are so well-known that professionals working in these fields have their own "intelligence" and as such are not directly dependent on the intelligence community. Questions such as the following need more specific answers:

- a. Is any intelligence community effort needed outside of the political, military, and technological fields?
- b. If so, in what fields, for which countries, for what consumers, and in what scope and depth?
- c. In the political, military, and technological fields, which are the countries or regions of such insignificant interest as to preclude the need for any intelligence community effort?
- d. In the political, military, and technological fields by country of interest, what is the minimum acceptable detail in both scope and depth of intelligence product--or alternatively, what are the critical indicators desired--in the spectrum from cold to hot war conditions?

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e. In marginal targets of interest situations, what selective assignment among means for collecting desired intelligence can be exercised, and who should be charged with making this determination from a community-wide point of view?

4. THE VALUATION OF INTELLIGENCE

Problem: How much is it worth to know that the USSR plans to launch a missile attack on the U. S. in 45 days, or how much is it worth to know that the daughter-in-law of the foreign minister of country "X" just gave birth to a daughter? While useful answers can be given to these two questions illustrating examples of extremes, useful values for answers to most questions which fall between these extremes are not possible to state at this time. It is highly unlikely that it will be possible to do so in the foreseeable future.

Comment: Rather than to try valuing various intelligence products and efforts in either absolute or relative terms, it would appear to be more rewarding to begin the identification of the costs of the "investment threshold" for various means and areas of intelligence activity. The scale of intelligence activities, targeted on matters of interest worldwide using in many cases various sophisticated--technologically complex--means, requires vary sizable investments in staff, equipment, and facilities to just set the stage for a production effort. It would appear that selective choices among means and between organizations could be taken with a fuller understanding of the implications of "investment threshold" costs.

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